

**City of Franklin**  
**Finance Department Policy/Procedure**

**Subject:** Debt Policy

**Issue Date:** September 8, 2008

**Source:** Director of Finance & Treasurer

**Affected**

**Departments:** All

**Purpose:** Issue debt and manage debt portfolio to ensure that the City maintains a sound debt position and that its credit quality is protected. Recognizing that access to capital markets over the long term is dependent upon the City's unwavering commitment to full and timely repayment of debt.

**Policy:** The City may issue bonds and notes for purposes of financing its capital improvements program, to refund existing debt and to provide financing for its Tax Incremental Financing Districts. The capital improvements program includes projects to acquire, plan, design, construct, improve and equip all or any part of its facilities or systems, promote economic development or to secure quality of life issues. Tax Incremental Financing Districts are limited areas that have been created to provide infrastructure to promote economic development.

The City will strive to continue to maintain a balanced relationship for financing its capital improvements through using pay as you go financing for its local street repaving program and for major equipment replacement purchases.

The Finance Committee will review each debt offering for compliance with this policy.

**Debt Limitations:**

Section 67.03 of Wisconsin Statutes requires that general obligation debt outstanding shall not exceed 5% of the equalized valuation of the taxable property within the City. Revenue bonds and notes are not considered debt for purposes of determining compliance with constitutional debt limitations. The City intends to keep outstanding general obligation debt within 40% of the limit prescribed by law and at levels consistent with its credit objectives and long-term financial plan.

## **Types of Debt and Structural Features:**

The City has statutory authority to finance capital improvements through the issuance of debt instruments, including:

- General Obligation Notes
- General Obligation Bonds
- Bond Anticipation Notes
- Revenue Bonds
- State of Wisconsin Capital Financing Programs
- Leases and Land Contracts

The City shall issue General Obligation Notes (maximum ten year maturity) for general capital improvements and shall use General Obligation or Revenue Bonds (maximum twenty year maturity) for Major capital projects, Buildings, Water, Wastewater and Stormwater utility capital financing unless staff demonstrates other authorized debt instruments provide a financial advantage. Staff will consider the useful life of the project assets being financed and the long-range financial and credit objectives when determining the final maturity structure of any debt issue. The City will issue debt on a fixed rate basis and intends to maintain 70% of the debt due within ten years.

The City may also issue debt on behalf of for-profit or non-profit corporations when doing so would promote economic development or secure quality of life issues. Prior to issuing such debt, the corporation shall provide substantive proof acceptable to the City that no budget appropriation shall be required to repay the debt. The City shall not issue debt on behalf of a non-profit corporation if doing so would prevent the City from issuing "bank qualified" debt for its own purposes without compensation from the non-profit corporation to cover the additional debt service cost.

Capital lease financing shall be considered only if verifiable operating savings when properly discounted outweigh the lease financing costs. Written justification detailing the explanation of factors considered including a cash flow analysis reviewed by Staff and submitted to the Finance Committee for consideration and approval before any lease is entered into.

## **Credit Objectives:**

The City will seek to maintain or improve its current credit rating with Moody's: General (Aa2). The City will strive to maintain good relations with the rating agency and keep them informed of significant developments that could affect the City's credit rating.

In order to achieve its credit rating objective, the City recognizes the need to integrate the debt policy with its capital improvement program and long-range

financial plans. The following objectives will be used to maintain debt service requirements at an affordable level and enhance the credit quality of the City:

- Levy for debt service no greater than 20% of the total tax levy with an effort to maintain the levy at a proportionate even level for tax rate stabilization.
- Responsible defeasance of general debt or reduction of current year borrowing package in conjunction with the General Fund Balance Policy.
- Flexibility to fund future expenditures necessary to provide essential City services and economic viability.

## **Method of Sale**

The City will normally issue general obligation debt through a competitive bidding process with the exception of Council authorized negotiated sales or State of Wisconsin Capital Financing Programs. Bids will be awarded on a true interest cost (TIC), providing other bidding requirements are satisfied. In the instances in which staff believes competitive bidding produced unsatisfactory bids, the Council may authorize staff to negotiate the sale of the securities.

Negotiated sales of general obligation debt will be considered in circumstances when the complexity of the issue requires specialized expertise (such as advanced refunding to restructure debt service), when time to complete a sale is critical or when a negotiated sale would result in substantial cost savings. Negotiated sales of debt will also be considered for revenue bonds, bond anticipation notes, leases and land contracts when the complexity of the project, revenue source for debt service, or security for the debt makes it likely that a negotiated sale would result in a financial advantage to the City.

Debt sold directly to the State of Wisconsin will be used when the City undertakes capital projects to maintain permit compliance, pollution control, or stormwater control or other issues that are eligible to receive below market rate loans.

## **Refundings**

Periodic reviews of outstanding debt will be undertaken to determine any refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding.

In general, advance refundings for economic savings will be considered when net present value savings of at least 2% of the refunded debt can be achieved. Current refundings that produce net present value savings of less than 2% savings may be considered when there is a compelling public policy or long-range financing policy objective.

## **Disclosure**

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional investors, bond insurers, other units of government, and the general public to share clear, comprehensible, and accurate financial information.

The Finance Department will provide continuing disclosure in compliance with continuing disclosure certifications made at the time of each debt issuance.

## **Financial Advisor and Bond Counsel**

Selection of bond counsel and financial advisor will undergo periodic review.

Policy Established: September 8, 2008 Resolution 2008-6481

Policy Review Date: September 2012